

Message Text

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SUBJ CONGRESSIONAL INTEREST IN RECIPROCITY

IN FOREIGN BANK ESTABLISHMENT

REF STATE 157474

1. IN REPLY TO QUESTIONS POSED PARA. 3, REFTEL, EMBASSY
GIVES FOLLOWING VIEWS ON CANADIAN BANKING LEGISLATION:
(A) CANADIAN BANK ACT OF 1967 DOES NOT PROVIDE FOR
RECIPROCITY, AND ONLY FINANCIAL INSTITUTIONS CHARTERED
BY FEDERAL GOVERNMENT CAN CALL THEMSELVES BANKS. THUS,
STATE RECIPROCITY REQUIREMENTS HAVE LITTLE OR NO
BEARING ON U.S. BANKS OPERATING IN CANADA. (U.S. BANKS
IN CANADA DO BUSINESS HERE UNDER PROVINCIAL AUTHORIZATION,
CALL THEMSELVES "INVESTMENT", "FINANCIAL" OR "HOLDING"
COMPANIES, AND ENGAGE IN "NEAR-BANK" ACTIVITIES.) USG
LICENSING OF FOREIGN BANKING IN U.S. WOULD ALSO NOT BE
A FACTOR UNDER PROVISIONS OF PRESENT BANK ACT.

(B) FEDERAL RECIPROCITY MIGHT BECOME AN ISSUE WHEN
BANK ACT OF 1967 IS UNDER REVIEW NEXT YEAR.
CANADIAN BANKERS HAVE CALLED FOR NEW PROVISIONS IN
ACT TO COVER FOREIGN NEAR-BANKS IN CANADA WHICH CAN
ENGAGE IN FACTORING AND LEASING, OPERATIONS DENIED
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FEDERALLY CHARTERED BANKS. CANADIAN BANKERS

REALIZE THAT MORE STRINGENT RESTRICTIONS ON FOREIGN NEAR-BANKS HERE COULD RESULT IN ACTIONS BY FOREIGN GOVERNMENTS TO LIMIT CANADIAN BANKING OPERATIONS ABROAD, BUT FOR PRESENT THEIR FOCUS IS ON CURTAILING FOREIGN BANKING AND FINANCIAL INSTITUTIONS OR OBTAINING CHANGES IN BANK ACT TO PERMIT THEM TO ENGAGE IN FACTORING AND LEASING.

2. GOC HAS ANOTHER LEGISLATIVE CONTROL OF FOREIGN BANKING WHICH IS NOT YET OPERATIVE, I.E., SECOND PHASE OF FOREIGN INVESTMENT REVIEW ACT WHICH DEMANDS GOC SCREENING OF ALL NEW INVESTMENT AND OF EXPANSION OF FOREIGN-CONTROLLED BUSINESSES INTO NEW ENDEAVORS. ALTHOUGH GUIDELINES FOR SECOND PHASE IMPLEMENTATION ARE NOT YET KNOWN, GOC COULD USE ACT TO PREVENT SPREAD OF FOREIGN BANKING ACTIVITY IN CANADA.

3. CURRENT FEDERAL BANKING LEGISLATION IN CANADA THUS PREVENTS FOREIGN BANKS FROM ENGAGING IN FULL RANGE OF BANKING ACTIVITY, BUT HAS NOT PREVENTED LARGE INFLUX OF FOREIGN BANKING INSTITUTIONS HERE. (ESTIMATES OF FOREIGN FINANCIAL INSTITUTIONS CURRENTLY IN CANADA VARY, BUT TORONTO STAR IN APRIL 1975 CLAIMED 130 FOREIGN-CONTROLLED FINANCIAL INSTITUTIONS WERE ENGAGED IN LENDING, LEASING, FACTORING AND ISSUING COMMERCIAL PAPER, AND ANOTHER 35 REPRESENTATIVE OFFICES OF FOREIGN BANKS WERE LOCATED IN CANADA.)

4. BANK OF NOVA SCOTIA ISSUED REPORT LAST YEAR CALLING FOR REGULATION OF FOREIGN NEAR-BANKS AND FOR RECIPROCAL TREATMENT OF CANADIAN BANKS ABROAD, AND FLOOD OF NEWSPAPER ARTICLES AND CANADIAN BANKERS' STATEMENTS IN PRAISE OF REPORT ENSUED. IN ANSWER TO THIS SPATE OF CRITICISM OF FOREIGN FINANCIAL ACTIVITIES IN CANADA, REPRESENTATIVES OF U.S. BANKS HERE WERE QUOTED IN PRESS AS "WELCOMING" FEDERAL SUPERVISION AND RECIPROCITY.

'5. U.S. BANKS WILL PROBABLY HAVE OPPORTUNITY DURING LIMITED OFFICIAL USE

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1976 TO MAKE THEIR VIEWS KNOWN TO PARLIAMENT ON REVISIONS OF CANADIAN BANK ACT WHEN LEGISLATION WILL BE CONSIDERING VARIOUS PROPOSALS T BRING NEAR-BANKS UNDER FEDERAL SUPERVISION. IT IS DOUBTFUL, HOWEVER, THAT LEGISLATORS WOULD ALLOW COMPLETE RECIPROCITY AND ALLOW FEDERAL CHARTERS FOR FOREIGN BANKS, THUS REVERSING 1967 DECISION TO EXCLUDE FOREIGN BANKS FROM NATIONAL BANKING SYSTEM. (UNDER 1967 ACT, MERCANTILE

BANK, WHICH WAS ONLY CANADIAN BANK CONTROLLED BY
FOREIGN INTERESTS, WAS REQUIRED DIVEST ITSELF OF
MAJORITY FOREIGN CONTROL. UNDER AGREEMENT WITH GOC,
FOREIGN OWNER -- FIRST NATIONAL CITY BANK -- RETAINED
ITS SHARES AND ACCOMPLISHED PURPOSE OF ACT BY ENSURING
THAT ADDITIONS TO EQUITY CAPITAL CAME FROM CANADIAN
SOURCES.)
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